

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 SCI-06 SCEM-02

INT-08 DRC-01 /177 W

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R 121428Z JAN 74

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 9644

INFO AMCONSUL GUAYAQUIL

C O N F I D E N T I A L QUITO 0238

E.O. 11652: GDS

TAGS: EFIN, EC

SUBJECT: NATIONAL DEVELOPMENT FUND

1. SUMMARY: IN RESPONSE TO RAPIDLY MOUNTING PETROLEUM REVENUES, THE GOE HAS CREATED A NATIONAL DEVELOPMENT FUND TO CHANNEL THESE NEW RESOURCES INTO PRIORITY PROJECTS IN THE 1973-77 FIVE YEAR PLAN. MANY PARTICULARS REMAIN TO BE WORKED OUT REGARDING CONTROL OF THE FUND, ITS RELATIONSHIP WITH THE BUDGET, AND RESOURCES PAID INTO IT, AS FORCES IN THE GOE CONTINUE TO CONTEND FOR SHARES OF THE ENORMOUS UNANTICIPATED WEALTH GENERATED BY PETROLEUM. END SUMMARY.

2. THE SWIFT ASCENT OF WORLD PETROLEUM PRICES AND ECUADOREAN GOVERNMENT REVENUES HAS MADE NECESSARY A COMPLETE REVISION (STILL UNDER WAY) OF THE GOE'S 1974 FISCAL PROGRAM. THE FIRST IMPORTANT RESULT HAS BEEN CREATION OF A DOLLAR DENOMINATED NATIONAL DEVELOPMENT FUND IN THE CENTRAL BANK TO FINANCE THE HIGHEST PRIORITY PROJECTS IN THE 1973-77 FIVE YEAR PLAN. THE FUND WAS ESTABLISHED BY SUPREME DECREE 1393 OF DECEMBER 14, 1973, WHICH RAISED THE PETROLEUM TAX REFERENCE PRICE FROM \$7.30

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TO \$10.00 PER BARREL.

3. THE NATIONAL DEVELOPMENT FUND WILL BE FINANCED BY GOVERNMENT REVENUES PROCEEDING FROM ANY INCREASE IN THE REFERENCE PRICE ABOVE \$7.30. AT THE PRESENT REFERENCE PRICE OF \$13.70, INCREMENTAL INCOME FROM THE FINAL \$6.40 PORTION OF REFERENCE PRICE, I.E., REALIZED REVENUES OF ABOUT \$3.90 PER BARREL, WILL BE PAID INTO FUND. ALTHOUGH IT IS STILL UNDECIDED WHETHER THIS PROVISION WILL APPLY TO ALL PETROLEUM EXPORTS, THE FUND WOULD RECEIVE APPROXIMATELY \$200 MILLION ANNUALLY AT THE PRESENT REFERENCE PRICE.

4. CONTROL OVER UNANTICIPATED RESOURCES OF THIS MAGNITUDE IS BEING SHARPLY CONTESTED IN THE GOE. MANAGEMENT OF THE FUND IS INVESTED IN AN INTERINSTITUTIONAL COUNCIL COMPOSED OF THE MINISTERS OF FINANCE, INDUSTRIES AND COMMERCE, AGRICULTURE, PUBLIC WORKS, AND NATURAL RESOURCES, AND THE PRESIDENT OF PLANNING BOARD. THE NATIONAL BUDGET COMMITTEE, CREATED IN APRIL 1973 TO COORDINATE FORMULATION OF THE BUDGET, WILL PROBABLY BE GIVEN A VOICE IN THE USE OF THE FUND'S RESOURCES, BUT ONE DISTINCTLY SUBORDINATE TO THE COUNCIL.

5. DECREE 1393 DIRECTS THE COUNCIL TO ISSUE IMPLEMENTING REGULATIONS. UNTIL THEY APPEAR, THE NATURE OF THE FUND AND ITS ROLE IN ECONOMIC DEVELOPMENT REMAINS SKETCHY. AS PART OF THE RECENT PACKAGE OF ANTI-INFLATIONARY MEASURES (QUITO 0018), THE GOE DECIDED TO GIVE FIRST PRIORITY TO THE AGRICULTURAL SECTOR IN USE OF THE FUND'S RESOURCES. PEDRO AGUAYO, PRESIDENT OF THE PLANNING BOARD, HAS ISSUED A LIST OF PROJECTS FROM THE FIVE YEAR PLAN TO BE FINANCED BY THE FUND, BUT IT IS UNCLEAR WHETHER THE LIST HAD COUNCIL APPROVAL, AND MANY OF THE PROJECTS HAVE NOT YET REACHED THE DRAWING BOARD. THE ESMERALDAS PETROLEUM REFINERY, FIRST ON AGUAYO'S LIST, DOES SEEM A LIKELY CANDIDATE FOR FUND FINANCING.

6. AMONG OTHER QUESTION MARKS ARE THE RELATIONSHIP OF THE FUND TO THE BUDGET AND WHETHER THE FUND WILL FINANCE IMPORT CONTENT ONLY OR DOMESTIC COSTS AS WELL. FURTHER, WE UNDERSTAND THAT ALLOCATION OF THE INCREMENTAL INCOME FROM THE GOE'S SALE OF ITS 16 PERCENT ROYALTY SHARE OF PRODUCTION IS STILL UNDECIDED. THE LANGUAGE OF DECREE 1393 APPEARS TO ALLOW AN INTERCONFIDENTIAL

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PRETATION THAT NO ROYALTY INCOME IS ASSIGNED TO THE FUND, AND THE ARMED FORCES ARE DETERMINEDLY SEEKING A REGULATION TO THAT AFFECT.

7. COMMENT: UNCERTAINTY ABOUT THE FUND'S DIMENSIONS AND USES STEMS PARTLY FROM FACT THAT FUND'S CREATION IS A COMPROMISE. ON ONE HAND, FINANCIAL MANAGERS WANT TO SPARE THE INFLATION-PLAGUED ECONOMY FROM FURTHER INCREASES IN DOMESTIC SPENDING.

ON OTHER HAND, OPERATING AGENCIES WANT MAXIMUM FREEDOM IN USING FUNDS FOR THEIR DEPARTMENTAL PURPOSES. ASSIGNING MANAGEMENT OF THE NATIONAL DEVELOPMENT FUND PRINCIPALLY TO THE MINISTERS MOST INTERESTED IN SPENDING ITS RESOURCES IS AKIN TO SETTING FOXES OVER THE CHICKEN COOP. ONE CONSEQUENCE OF ESTABLISHING THE FUND MAY THEREFORE BE TO WEAKEN MINISTRY OF FINANCE CONTROL OF THE BUDGET AND TO DIMINISH FISCAL RESPONSIBILITY. THE INFLUENCE OF THE NATIONAL PLANNING BOARD AND THE SIGNIFICANCE OF THE PLAN ITSELF MAY ALSO WANE, AS RESPONSIBILITY FOR MAJOR INVESTMENT DECISIONS IS SHIFTED TO THE FUND'S INTERINSTITUTIONAL COUNCIL.

BREWSTER

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